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Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions and the World Trade Organization (New York, 26 April 2004)

Addendum 1

Summary of the informal hearings of civil society on financing for development (New York, 22 March 2004)***

Summary

In preparation for the special high-level meeting of the Economic and Social Council with the international financial and trade institutions, held on 26 April 2004, on the theme "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus", the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat had organized informal hearings and an interactive dialogue with representatives of non-governmental organizations that are in consultative status with the Council and/or accredited to the financing for development process. The event, chaired by the President of the Economic and Social Council, Marjatta Rasi (Finland), took place at United Nations Headquarters on 22 March 2004. The overall theme of the meeting was "Coherence of the international financial and trading systems in support of

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development: national responsibilities and international obligations". The hearings and dialogue featured panel discussions on the following two topics: (i) Coherence of the international financial system in support of development; and (ii) Coherence of the international trading system in support of development. Both panel discussions were moderated by Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs. Each panel consisted of introductory remarks by the Moderator, presentations by the panellists and comments by the discussants followed by discussions with Council delegates, including questions from the audience. Salient substantive features of the proceedings of the meeting are summarized below.

Opening of the meeting

1. The Chairperson of the meeting, Ms. Marjatta Rasi (Finland), President of the Economic and Social Council, opened the meeting and welcomed all panellists, discussants and participants. In her introductory remarks, the Chair thanked the non-governmental organization (NGO) community for its deep engagement in the financing for development process. She emphasized the important role that civil society played in the follow-up to the Monterrey Conference. She also stressed that hearings of NGO representatives should be carried out on a regular basis as they provided an important opportunity for Member States and all other relevant stakeholders to interact with representatives of civil society on key issues related to financing for development.

Panel 1
Coherence of the international financial system in support of development

Overview

2. The first panel discussion focused on the implementation of the Monterrey Consensus in the critical areas of investment and debt sustainability. The participants discussed the role of international private capital flows in promoting economic development. Possibilities of regulating those flows to enhance their positive economic impact and to mitigate risks of their volatility were explored. With regard to debt sustainability, a number of policy recommendations for developed and developing countries were suggested that would reduce the structural vulnerability of highly indebted poor countries (HIPCs).

Presentations by panellists

3. Mr. Randall Dodd, Financial Policy Forum, made a presentation on managing the economic impact of foreign capital flows. He acknowledged the positive role that foreign direct investment (FDI) could play by raising low domestic savings in developing countries and helping to mitigate the adverse effects of economic shocks such as natural disasters. However, foreign investment could also play an unproductive role by exposing developing countries to disruptions and distortions through sudden massive inward and outward movements of capital. The panellist reminded participants that in addition to the impact of international capital surges, panics and droughts, developing countries faced the risks of changes in exchange rates and interest rates, and of debt default. The risks associated with changes in exchange rates and interest rates were known as market risks as they referred to the uncertainty of the market price of credit or foreign currency.

4. The panellist pointed out that capital flows to developing countries such as bank loans or bonds were almost entirely denominated in United States dollars or other major currencies such as the euro or yen. Therefore, an appreciation of those major currencies would usually lead to increased interest rate payments for developing countries and a higher principal of debt denominated in foreign currency. Similarly, foreign debt was also subject to changes in interest rates when it was rolled over at maturity or according to a regular schedule. An increase in interest rates in the United States of America would lead to higher debt repayment costs, and

if the higher interest rates also led to a higher valued United States dollar then the debt costs would increase that much more. Furthermore, a general dollar appreciation would also significantly reduce the competitiveness of developing countries' exports owing to the fact that most exchange rates of developing countries were pegged to the United States currency.

5. Mr. Dodd elaborated on several types of policy recommendations developing countries could pursue in order to safeguard their economies from adverse external events and from the adverse effects of volatile capital markets. In this regard, he focused on prudential regulation of financial markets, capital controls, anti-trust laws and performance requirements. Prudential regulation of financial markets should include collateral requirements, capital requirements, reporting and registration requirements and orderly market rules. Collateral requirements, such as those for buying securities on margin, would dampen speculative pressures on asset prices. They would also help to prevent systemic failures in markets for derivatives, repurchase agreements and securities lending. Capital requirements were also critical as they governed the borrowing behaviour of institutions abroad.

6. Furthermore, reporting and registration requirements helped prevent financial fraud and made markets more transparent, thereby improving the determination of market prices. In order to help maintain liquidity and prepare against destabilizing market events, orderly market rules should be introduced as well. Such rules could include price limits for securities and derivatives exchanges, fair credit reporting rules and prohibitions against predatory lending and deposit insurance. Properly designed capital controls could be used to effectively prevent massive capital inflows and outflows from undermining market stability. In order to be effective, however, capital controls required judicial application. In the 1990s, successful capital controls had been introduced in Chile, Colombia and Malaysia, where they had helped to prevent boom and bust cycles.

7. Anti-trust laws could help to prevent market forces such as mergers and acquisitions from leading to industry concentration. If not properly regulated through anti-trust legislation, high levels of concentration of ownership, which were a characteristic feature of financial markets, could lead to a non-competitive market resulting in inefficiencies and unfairness. In concluding, the panellist referred to the potential of shaping foreign investment for development purposes. Policies known as performance requirements could be helpful to assure that FDI had collateral benefits such as technology sharing, developing managerial experience and other skills, as well as gaining exposure to foreign markets.

8. Ms. Kathrin Berensmann, German Development Institute, focused on the challenge of ensuring debt sustainability beyond the HIPC Initiative. The panellist recalled that the Monterrey Consensus had called for continued efforts to reduce the debt burden of HIPCs to sustainable levels. She identified debt sustainability as one important indicator for the achievement of the Millennium Development Goals. The speaker stated that debt sustainability could be defined as economic debt sustainability and financial debt sustainability. While the former referred to debt service which did not inhibit growth and the overall economic policy, the latter was attributable to a country's ability to service its debt. The key HIPC indicators to measure debt sustainability were the Net Present Value (NPV) of debt/export ratio and the NPV of the debt/fiscal revenue ratio.

9. Apart from quantitative indicators of debt sustainability, Ms. Berensmann stressed the importance of qualitative indicators that would take into account the compatibility of the HIPC Initiative with the achievement of the Millennium Development Goals, development of the financial sector and capital markets and the quality of institutions in an indebted country. She called for flexibility in devising debt indicators so that specific circumstances of individual countries could be duly taken into account. According to the panellist, one of the major obstacles to debt sustainability was the structural vulnerability of developing economies. Exogenous shocks such as commodity price fluctuations tended to affect low-income countries more severely than developed countries. Among the main reasons for that vulnerability was the lack of a diversified export base in low-income countries, some of which were highly dependent on a small number of commodities.

10. The speaker proposed a number of policy recommendations addressed to the international community, the international financial institutions, HIPCs and industrialized countries. In particular, she called for more grants and concessional credits to help developing countries achieve the Millennium Development Goals. She cautioned, however, against preferential treatment that would provide resources to the poorest countries to the disadvantage of better performing developing countries. In addition, she proposed the establishment of a working group of experts from relevant international institutions that would focus on Millennium Development Goal costing exercises, which then could provide the basis for the calculation of the long-term financing needs of low-income countries.

11. Ms. Berensmann further commented on the insufficiencies of current financing instruments provided by the international financial institutions. She argued that international financial institutions should develop more appropriate and flexible mechanisms to deal with external shocks, because existing instruments, such as the Compensatory Financing Facility of the International Monetary Fund (IMF), were not always successful. In addition, a contingency finance facility could be established. In addressing HIPCs, the speaker suggested three main policies that would facilitate the management of external shocks. First, she stressed the importance of export diversification as the only mechanism that would address the problem of vulnerability at its root. Second, she called on HIPCs to strengthen their domestic debt markets in order to be able to borrow in domestic currencies at lower interest rates. Third, she urged HIPCs to improve their public expenditure management. In concluding, the panellist called on industrialized countries to enhance the access of HIPCs to their markets.

Comments by discussants

12. Mr. C. Lawrence Greenwood, Jr., Deputy Assistant Secretary of State for International Finance and Development, United States Department of State, commented on various issues raised by the two panellists. He stressed that official development assistance (ODA) by itself could not drive economic development. Domestic capital, trade and investment and remittances were far more important sources of financing for development, while ODA could play an important role as a catalyst to help mobilize domestic savings to invest in growth. Responding to criticisms of foreign capital's volatility, the speaker stated that both foreign and domestic capital moved under similar factors. In order to attract foreign capital and prevent domestic capital flight, it was crucial to introduce an effective, efficient and

transparent domestic economic environment, based on good governance and sound macroeconomic policies.

13. Mr. Greenwood challenged the view that foreign capital inflow was an important factor causing domestic asset inflation. That phenomenon, he said, was caused by faulty domestic monetary policies. The speaker questioned the effectiveness of capital controls. While controls might be appropriate for developing economies with weak financial systems, they should only be of a temporary nature as they inhibited much needed capital inflows. The discussant noted the United States strong financial and moral support for the HIPC Initiative. He suggested that, in order to cope with the risks associated with fluctuating exchange rates, debtor countries should consider hedging their positions, noting that hedging had never been cheaper given the depth of the market. In concluding, Mr. Greenwood urged civil society participants to stay engaged in the financing for development process as they offered a counterweight to vested political and economic interests in developing countries, which held back development.

14. Mr. Stafford O. Neil, Permanent Representative of Jamaica to the United Nations, stated that the recent focus on private capital flows should not obliterate the continuing importance of bilateral and multilateral flows to developing countries. ODA, grants and loans remained essential, in particular, for those countries that would benefit most from private capital inflows but were least able to attract them. Given the imbalances in the flows of private capital, reliance on free market forces alone was not a viable approach and would reproduce current patterns of poverty. Instead, the "invisible hand" of the market needed to be helped along in the process. This could be achieved by creating new mechanisms for managing private capital flows, both at the national and international levels. According to the speaker, regulation at the national level was a double-edged sword. While it was viewed as a disincentive for attracting foreign private capital, it was essential for protecting the national economy. With regard to mechanisms for international regulation, the discussant expressed his disappointment at the stagnation of discussions on a "new financial architecture", which had been pursued more fervently during the 1990s.

15. In reacting to Ms. Berensmann's presentation on debt sustainability, Mr. Neil commented on the challenges of the HIPC Initiative. He stated that the cumbersome process of application and implementation of the HIPC Initiative had put a heavy burden on those countries and had limited its effects. To ensure sustainability beyond the debt relief initiative, HIPCs were expected to strengthen their economies. Export diversification should be the key tool to attain sustainability. However, economic diversification was not easy to implement as it needed to be accompanied by governmental support. Free market principles alone would not facilitate the export diversification of HIPCs. Further, the discussant questioned Ms. Berensmann's suggestion that more emphasis be put on local borrowing, rather than on international borrowing. Many developing countries depended on external financing because domestic interest rates were currently higher than foreign interest rates. He warned that a sudden shift would result in higher interest rates for borrowers.

Discussion

16. Ms. Gemma Adaba, International Confederation of Free Trade Unions, voiced concerns about the negative effects of FDI. According to Ms. Adaba, FDI tended to have very weak linkages to local labour markets and to the local economy in general. Instead of benefiting the receiving countries by means of stimulating local economic sectors, employment generation and technology transfer, the role of FDI was most often reduced to the "chase for cheap labour". She asked how the performance requirements for FDI, as suggested by Mr. Dodd, could be designed to make FDI more beneficial for receiving countries. She further asked how an appropriate regulatory framework for FDI would look, and how the latter could be effectively implemented. According to the NGO participant, these questions were of particular importance as a focus of policy support at the international level, given the weak negotiating position of many developing countries.

17. Mr. Aldo Caliari, Centre of Concern, stated that the subject of debt sustainability had important political dimensions that could not therefore be addressed by the international financial institutions alone. The United Nations should continue a dialogue on debt-related issues and should provide for a follow-up mechanism. The speaker illustrated his point with the following three examples. First, he considered it was necessary to separate the roles of IMF as the agency providing both lending and surveillance, a position supported at some point by the minister of the United Kingdom responsible for finance. If those two roles were not separated, the speaker felt, IMF would continue to have an obvious conflict of interest, which it would not be able to resolve by itself. Second, the NGO participant referred to the debt of many developing countries as "phantom debt", a term known in some academic circles as an indication of the broad-based agreement on the debtors' inability to repay it. It should have long been written off, argued the speaker, if the international financial institutions had applied more stringent standards of private bank lending. According to Mr. Caliari, it was not a matter of new resources for debt relief, but rather a political decision on what set of accounting standards to apply. Third, the speaker raised the question of allocating truly new and additional resources for debt relief. By Ms. Berensmann's account, some new resources would be needed. But how much more resources could be devoted to debt relief, he argued, was a political issue exceeding the merely technical aspects of debt sustainability. Finally, he stressed that the United Nations would be the only legitimate forum to forge the political consensus needed to provide appropriate solutions with regard to the political dimensions of debt-related and other economic policy issues on the agenda of the financing for development process.

18. Ms. June Zeitlin, Women's Environment and Development Organization, raised the issue of relating the question of debt sustainability to the Millennium Development Goals, specifically to Goal 8, which called on the international community to promote a global partnership for development. She asked how the right type of environment for the implementation of that goal could be created.

19. Rev. Séamus Finn, Missionary Oblates of Mary Immaculate/New Rules for Global Finance Coalition, voiced concerns about the comments by Mr. Greenwood on accepting the effectiveness of capital controls. He recalled that even IMF had accepted the positive impact of those controls on various occasions. He also underscored the importance of financial market regulation and the provision of

adequate resources for monitoring compliance. In that regard, the NGO participant suggested that an international framework for monitoring compliance with financial market rules and regulations be considered.

20. Mr. Paul Tennasse, World Confederation of Labour, highlighted the important relationship between FDI and the informal economy. In view of the accelerating growth of the informal economy in most developing countries, FDI needed to be linked to that sector in order to have any positive impact on the receiving economy. The speaker stressed the necessity of looking at the quality of FDI and its potential to improve employment with decent jobs and training of the local labour force. However, as long as the debt issue was not solved, the capacity for domestic resource mobilization would be limited.

21. Mr. Munir Akram, Permanent Representative of Pakistan to the United Nations, in responding to Mr. Greenwood's contribution, stated that the key problem of most developing countries was their lack of both domestic savings and export earnings. It was for exactly that reason that many developing countries were unable to attract private capital flows. External assistance was therefore needed.

22. The Moderator of the meeting, Mr. José Antonio Ocampo, pointed out that one of the achievements of the Monterrey Consensus was its combined focus on both domestic and international factors in addressing the debt issue. He also said that it was important to recognize the relationship between an unsustainable debt burden and long-term economic stagnation. The Moderator reiterated the importance of export diversification for enabling developing countries to increase their export earnings. Yet, some countries did not have access to debt and loan financing, which could be caused by cyclical as well as structural reasons. Adequate international mechanisms were thus needed for tackling those structural imbalances. Similarly, ODA played a crucial role in assisting developing countries that had little or no access to private capital.

23. Mr. Dodd, responding to Ms. Adaba's questions regarding prudential regulation and performance requirements for FDI, said that apart from passing regulatory laws there was also a need for new mechanisms of enforcement, surveillance and prosecution. Establishing those mechanisms was an ongoing process even as it concerned the United States. In referring to the example of Enron, Mr. Dodd said that some of the procedures undertaken by the company had in fact been legal at the time. The challenge lay in creating an appropriate magnitude of domestic and international prudential regulation.

24. Ms. Berensmann, acknowledging Mr. Neil's comments regarding the difficulties associated with the process of export diversification, reiterated her view that economic diversification was the best strategy to solve the problem of the highly indebted poor countries at its root. She also stressed the importance for HIPCs of borrowing not only in international but also in domestic markets. She agreed with Mr. Caliari's view that more debt of HIPCs should be written off, since many of them would not be able to repay it. With regard to the relationship between debt sustainability and the Millennium Development Goals, she recalled the estimates by the international community that attaining the Millennium Development Goals would require at least an additional $50 billion of ODA per year.

Recommendations

25. The following recommendations were made by individual panellists, discussants and speakers from the audience:

- **Adverse effects of the volatility of private capital flows should be reduced through policies of prudential regulation, capital controls, anti-trust laws and performance requirements. These policies should be accompanied by mechanisms of enforcement, surveillance and prosecution.**
- **Linkages between FDI and local labour markets, including those of the informal economy, should be strengthened. Receiving countries should benefit from gainful and decent employment, training and technology transfer.**
- **Government infrastructure and public projects should increase partnerships with domestic capital investments. Such joint projects would serve as a mechanism to mitigate risks and decrease capital flight.**
- **Domestic resource mobilization should be strengthened through fostering an effective, efficient and transparent economic environment based on good governance and sound macroeconomic policies.**
- **To cope with the risks associated with fluctuating exchange rates, debtor countries should make sensible use of derivative instruments.**
- **Consistent with Millennium Development Goal 8, which calls for a global partnership for development, the issue of linking debt sustainability to the achievement of the Millennium Development Goals should be studied.**
- **To secure debt sustainability and facilitate the attainment of the Millennium Development Goals, the international community should increase grants and concessional loans to developing countries.**
- **An interdisciplinary working group of experts from the relevant international institutions should be created to devise mechanisms for calculating the long-term financing needs of low-income countries to reduce the impacts of external shocks.**
- **To achieve debt sustainability, HIPCs should diversify their export base, strengthen their domestic debt markets and improve their public expenditure management. Industrialized countries on the other hand should improve the access of HIPCs to their markets.**
- **So-called "phantom debt" resulting in falling into arrears in debt payments, owing to negative exogenous factors, should be forgiven.**
- **An expert study group on debt sustainability should be convened within the framework of the financing for development process.**

Panel 2
Coherence of the international trading system in support of development

Overview

26. The second panel discussion focused on the implementation of the Monterrey Consensus in areas related to the international trading system and commodities. Eliminating agricultural subsidies and increasing market access were identified as major concerns of developing countries. To address those and other trade-related issues, participants called for an early resumption of multilateral trade negotiations. In the area of commodities, short-term price fluctuations, a long-term trend of declining prices and a diminishing share of producers in the value chain were acknowledged as critical challenges for developing economies. In particular, the need to fill the current institutional vacuum in dealing with those issues was stressed.

Presentations by panellists

27. Mr. Goh Chien Yen, Third World Network, spoke on current issues in trade and development. The panellist recalled that the Monterrey Consensus had highlighted the role of trade as an engine for development and had established several benchmarks to ascertain whether international trade was indeed playing such a role. He felt that in the light of the recent failure of negotiations at the World Trade Organization (WTO) Ministerial Conference in Cancun, the outcome of the Doha work programme and the future role of WTO needed to be reconsidered.

28. The speaker analysed the draft document, known as the Derbez text, which had not been adopted in Cancun but was often used as a reference point. The text contained, in relation to the negotiations on agriculture, a blended formula for tariff cuts that would disadvantage developing countries by subjecting them to an average tariff reduction of 30 to 70 per cent, as compared to only a 25 to 30 per cent reduction for developed countries. According to Mr. Goh, that formula should not be accepted. In addition, special products and special safeguards mechanisms should be given more importance as they provided an effective way to counter import surges in developing countries, thus protecting their farmers' livelihoods and food security.

29. In terms of non-agricultural market access, the Derbez text recommended further work on a non-linear formula on tariff reduction. That type of formula, stressed the panellist, should not be accepted by developing countries because it would threaten their domestic industries.

30. Mr. Goh also referred to the role of the so-called "Singapore Issues", namely: investment, competition, transparency in government procurement and trade facilitation. A majority of the member countries, including the United States, felt that at least the first three of those issues should be dropped from the WTO negotiations.

31. In concluding, Mr. Goh recommended that the Derbez text should be disregarded in future negotiations, that more attention should be paid to proposals submitted by developing countries and that the Singapore Issues should be dropped from the WTO negotiations. The role of the financing for development process should be to monitor developments in WTO and to help examine and assess

bilateral, regional and multilateral agreements, IMF and World Bank trade conditionalities and their impact on developing countries. Furthermore, it should identify and address the impediments facing developing countries in decision-making processes in all trade negotiation forums.

32. Mr. Irfan ul Haque, New Rules for Global Finance Coalition, focused on commodities as a development issue. The panellist expressed the view that there were many trade-related concerns such as the issue of commodities which went beyond the scope of the WTO mandate. In the absence of other institutions, the financing for development process provided a forum for discussing those matters. Although a number of developing country exporters of agriculture products suffered from the protection and agricultural subsidies in the industrial countries, the commodity problem was not, by and large, an issue of market access.

33. Mr. ul Haque outlined three major issues of concern in the area of commodities: (i) short-term price fluctuations; (ii) a long-term declining price trend; and (iii) a declining share of producers in the value chain. He noted that the decline in commodity prices and the associated long-term decline in the terms of trade for developing countries implied a real resource transfer to consuming industrial countries. The situation had been aggravated by the market liberalization measures that had tended to increase developing country dependence on commodity exports. With respect to short-term price fluctuations, the speaker mentioned that neither of the two international arrangements launched to provide relief to commodity producers — the European Union (EU) Stabex and the IMF Compensatory Financing Scheme (CFS) — were currently operational. However, the panellist, while recognizing the grave problem created by declining and fluctuating prices, placed special emphasis on the problem of the declining share of primary producers in the value chain, defined as the addition to value at each stage as a product moved from the primary producer to the final consumer.

34. According to the panellist, there were two major reasons for the long-term declining commodity price trend, namely, improved productivity and persistent overproduction resulting in structural oversupply. In the case of structural oversupply, there was no alternative to steps to manage the supply situation. If arrangements to regulate production or exports of surplus commodities were not possible under an international agreement, producers could come together with the aim of curtailing supplies and improving market conditions. Where appropriate and feasible, that might include producer-consumer schemes, joint measures by producers and national-level measures.

35. In discussing the problem of the declining share in the value chain, the panellist noted that, while in an ideal market setting the value chain would be determined through fair competition, in the real world the power to trade was determined by economic status. That resulted in unequal exchange and increased vulnerability of developing countries. The speaker pointed to the urgent need for an international institution to deal with the issue of commodities. While the United Nations Conference on Trade and Development (UNCTAD) used to be such a forum, its capacity in that area had been greatly reduced over the last decade. Similarly, the World Bank and IMF too had disbanded their commodity divisions and cut down on research on commodity markets. The speaker concluded his presentation by calling on the international community to close that institutional gap at the international level.

Comments by discussants

36. Mr. John B. Richardson, Head of the Delegation of the European Commission to the United Nations, reaffirmed EU commitment to all elements of the Doha Agenda. The EU was determined to get the trade negotiations back on track. The EU had reassessed its strategy in the light of Cancun. It was time for the WTO membership to work out new modalities for the further trade negotiations under the Doha work programme. According to the discussant, the December meeting of the WTO General Council showed political will to relaunch the talks. The pillars to address in that context were development issues, the Singapore Issues, non-agricultural market access and agricultural market access. In terms of development issues, there was a need to look at special circumstances of the least developed countries and find special arrangements to deal with them. The idea should be to produce development results. On the Singapore Issues, the speaker argued against the idea that those were not trade-related issues. Nevertheless, the EU was willing to drop investment and competition from the negotiation package.

37. On agricultural subsidies, Mr. Richardson expressed the view that some forms of that type of subsidies had proved to be useful. For example, the so-called "green box" subsidies had valuable social implications as they could promote rural development and environmental protection without any trade-distorting effect. He underscored that the forthcoming EU enlargement would result in a reduction of export subsidies as the current subsidies could not be extended to new members. Linked to the EU enlargement also was a massive reform of common agricultural policy. A key point of the Doha mandate concerned the reduction or elimination of tariff peaks and escalations, in particular for products of export interest to developing countries. In that regard, the speaker mentioned cotton as a classical example of tariff escalation in some markets. He then pointed to some new trade facilitating activities of the EU, which went beyond trade negotiations. A recently launched Trade Help Desk was supposed to help exporters from developing countries interested in EU markets to obtain essential information. Another initiative was current projects worth euro 1.5 billion to provide trade-related technical assistance for capacity-building in developing countries. In concluding, the discussant referred to the paradox of preferences in the context of the current trade negotiations. The more the tariffs were reduced, the less preferential margin was left to the poorest countries such as the least developed countries. Solutions needed to be found, including outside the Doha framework, perhaps in a dialogue among countries of the South and by South-South liberalization.

38. Mr. Munir Akram, Permanent Representative of Pakistan to the United Nations, asserted that developing countries did not have much choice in the area of trade but to obtain the best possible deal within the setting of WTO. Since decision-making in WTO was done by consensus, any group of developing countries which was well organized and articulate could negotiate effectively. While the Doha round could not be called a "development round", it could be transformed into one once developing countries were clear on their objective and strategy. The discussant underscored the need to reinstall the multilateral trade negotiations, following the setback of Cancun. Certain confidence-building measures, however, needed to be established to strengthen the trust of developing countries. Possible actions towards that goal would be a moratorium on anti-dumping measures, duty-free and quota-free trade for least developed countries, the reduction of subsidies and commitment to capacity-building in developing countries.

39. According to the speaker, some of the most urgent issues from the point of view of developing countries were the phasing out of textile tariffs and the resolution of institutional issues, as well as that of addressing the issue of tariff peaks and escalations. However, if tariff peaks and escalations were just to be removed, some countries would benefit and others would suffer. The purpose of trade negotiations, however, should not only be to liberalize trade but also to create a level playing field. Hence, another solution had to be found to protect the poorest countries. Additional critical issues to be addressed included the operationalization of special and differential treatment provisions, the movement of natural persons, including the controversy over outsourcing, as well as trade-related aspects of intellectual property rights (TRIPS) agreements. Most importantly, however, the multilateral trade negotiations had to be relaunched quickly and the issue of agricultural subsidies should be given the utmost priority in the process of negotiations.

Discussion

40. Mr. Randall Dodd remarked that even if there were an upward long-term trend in commodity prices, short-term price volatility would remain a problem. To remedy it, Governments and relevant institutions should provide commodity price risk instruments.

41. Ms. Kristin Dawkins, Institute for Agriculture and Trade Policy, identified structural oversupply and vertical integration of monopolies as the main reasons for the steady decline in commodity prices. In the case of cotton, for example, while prices had fallen by half, production had doubled over the years. She stated that the United States owned 40 per cent of the market share in cotton and dumped exports at prices dramatically below the cost of production. According to the NGO participant, banning all forms of export dumping was essential for reaching the Millennium Development Goals. Also, new policies needed to be developed to manage the international supply of commodities. To that end, she proposed that UNCTAD should be commissioned as an appropriate agency for devising policy recommendations in that area.

42. Mr. Frank Schroeder, Friedrich-Ebert-Stiftung, referred to Mr. ul Haque's claim that there was an institutional vacuum surrounding the commodity issue. He asked if any suggestions had been made in the Eminent Persons' Report on Commodity Issues as to how to fill that void. He also wondered if a new institution was needed to address the commodity issue or if an existing one such as UNCTAD could be utilized in that regard. The NGO participant also asked what scope for action the WTO Committee on Trade and Development had with regard to the long-term price decline of primary commodities and if special and differential treatment would be an adequate instrument to address the commodity problem.

43. Ms. Narelle Townsend, NGO Committee on Human Settlements, pointed out that more investment was needed for water infrastructure and land development. She emphasized that developing real estate markets for housing and asset markets was crucial and that new and innovative modalities to engage foreign investment as well as domestic savings were necessary. The NGO participant raised the question of how to finance the enormous expenditure that was required in the areas of infrastructure and human settlements in developing countries.

44. The Moderator, Mr. José Antonio Ocampo, reiterated Mr. ul Haque's remark about the necessity of filling the institutional vacuum surrounding the area of commodities. He also recalled that massive debt adjustments in Latin America and Africa in the 1980s had been closely related to commodity price collapses. On a cautionary note, the Moderator reminded participants that export diversification, despite its potential for economic benefits, could lead to global oversupply and a further decline of commodity prices.

45. In response to Mr. Richardson, Mr. Goh Chien Yen argued that while the so-called "green-box" subsidies purported to be less trade distorting it remained to be seen whether that would indeed be the case. The latitude in the Derbez text in that regard could provide the opportunity for the developed countries to shift from one kind of domestic support to another. He also pointed out that the EU was back-pedalling on its offer made at Cancun to drop the Singapore Issues.

46. Mr. Irfan ul Haque, in responding to the question regarding institutional arrangements to deal with commodities, called for considering the use of existing institutions before creating any new ones. In that regard, he reiterated that UNCTAD had been created to deal with trade-related issues not covered by the General Agreement on Tariffs and Trade (GATT), the predecessor of WTO.

47. The Chair thanked all the participants in the hearings and encouraged civil society to remain deeply and actively involved in the financing for development process.

Recommendations

48. The following recommendations were made by individual panellists, discussants and speakers from the audience:

- **In the area of trade as an engine for development, the role of the financing for development process should include: monitoring and assessing developments in the multilateral trade negotiations under the Doha work programme; promoting the coherence and consistency of the international financial and trading systems in support of development; examining the developmental impacts of bilateral and regional trading agreements; identifying and addressing impediments confronting developing countries in the decision-making processes in the Bretton Woods institutions and WTO.**

- **Developing countries should set a clear objective and strategy and should utilize better the negotiating processes within the setting of WTO, in order to transform the Doha round into a "development round" of multilateral trade negotiations.**

- **Developed countries should adopt confidence-building measures to regain the trust of developing countries. Such measures should include a moratorium on anti-dumping, duty-free and quota-free trade for the least developed countries, reduction of subsidies and commitment to capacity-building in developing countries. In addition, developed countries should proceed to banish textile tariffs, introduce tariff peaks and prevent tariff escalation.**

- **The primary focus of trade negotiations after Cancun should be on agriculture.**
- **The Singapore Issues should be dropped from the WTO agenda.**
- **Special and differential treatment provisions in the WTO rules should be fully operationalized and further strengthened. However, trading preferences given to the least developed countries should not be exerted to the disadvantage of more competitive developing countries.**
- **The TRIPS Agreement needs to be re-evaluated from a development perspective.**
- **Compensatory finance should be made operational to help insulate developing countries from adverse effects of international commodity price volatility.**
- **Where appropriate, market-based tools for providing better price risk management should be used more extensively.**
- **The international community should work in a concerted manner with a view to filling the institutional vacuum surrounding the issue of commodities. In this regard, existing institutions should be considered, in particular UNCTAD.**
- **In the long run, policies such as commodity agreements should be adopted at the international level.**
- **In the short term, measures to reduce the oversupply of commodities may be necessary. Where appropriate or feasible, these may include producer-consumer schemes, joint measures by producers only and national-level measures.**
- **Developed countries could help solve the problem of oversupply by eliminating agricultural subsidies.**
- **Support for strengthening supply capacity in the commodity sector should be made an integral part of international assistance to commodity-dependent countries.**
- **An "international diversification fund", which could be linked to an existing institution, such as the Common Fund for Commodities, should be established to enhance the ability of countries to move away from excessive dependence on a few commodities.**
- **The place of primary producers in the value chain should be enhanced through commodity-based development and diversification.**

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Item 6 (a) of the provisional agenda**
Implementation of and follow-up to major United Nations conferences and summits: Follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions and the World Trade Organization (New York, 26 April 2003)

Addendum 2

Summary of informal hearings of the business sector on financing for development (New York, 24 March 2004)***

Summary

In preparation for the special high-level meeting of the Economic and Social Council with the international financial and trade institutions, held on 26 April 2004, on the theme "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus", the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat had organized informal hearings and an interactive dialogue with business representatives accredited to the financing for development process. The event, chaired by the President of the Economic and Social Council, Marjatta Rasi (Finland), took place at

* A/59/50 and Corr.1.
** E/2004/100 and Corr.2.
*** The present summary was prepared by the staff of the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat, in consultation with the moderators and panellists of the meeting.

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United Nations Headquarters on 24 March 2004. The overall theme of the meeting was "Mobilizing private investment for development". The hearings and dialogue featured panel discussions on the following two topics: (i) Improving information for private investors in developing countries; and (ii) Mitigating risks facing private investors in developing countries. Each panel session consisted of introductory remarks by the moderator and presentations by business sector panellists followed by discussions with Council delegates, including questions from the audience. Salient substantive features of the proceedings of the meeting are summarized below.

Opening of the meeting

1. The Chairperson of the meeting, Ms. Marjatta Rasi (Finland), President of the Economic and Social Council, opened the meeting and welcomed all panellists and participants. In her opening remarks, she expressed satisfaction with the active engagement of the business sector in the follow-up to the International Conference on Financing for Development. Ambassador Rasi stated that the deep commitment of the business sector to moving forward the financing for development process was illustrated by the richness of the substantive ideas and suggestions put forward by business representatives. She outlined the organization of the meeting, introduced the moderators and the topics to be discussed by the panels, and encouraged an open and frank exchange of views.

2. Mr. Paul Underwood, Executive Director, Business Council for the United Nations, explained that the presentations at the hearings would draw upon the findings of an expert workshop on "Mobilizing private sector investment in developing countries", which had been held on 23 March 2004 at the Business Council for the United Nations. Mr. Underwood pointed out that the workshop had been a multi-stakeholder event, given the fact that senior experts from Governments, multilateral organizations and the private sector in developed and developing countries had been present. The workshop had addressed two themes: (i) improving information for private investors in developing countries; and (ii) mitigating risks facing private investors in developing countries. The diversity and number of participants in the workshop had been most encouraging and indicated the importance attached to those issues in both public and private sectors. The workshop had marked an important stepping stone and deserved proper follow-up. He urged delegates to the Economic and Social Council to communicate to their respective national authorities the outcome of the workshop and to promote the idea of working jointly with the group of business sector experts in the area of mobilizing private investment for development.

Panel 1
Improving information for private investors in developing countries

Presentations

3. The Moderator of the panel, Ms. Barbara Samuels, President, Samuels Associates, opened the session by summarizing the findings of the first part of the expert workshop, on the issue of strengthening information for investors in developing countries. She highlighted six critical areas for improvement: (i) the insufficient use of existing information by investors and policy makers; (ii) the lack of reliable, relevant information on country business environments (for example, sector specific information, cost factor analyses by region, information on enforceability of contracts, sources of local finance, regional economic opportunities/risks); (iii) the insufficient credibility of information; (iv) the need for neutral organizations or expert panels to provide independent and open expert assessments of information; (v) the need to increase the analytical capacity of investors and policy makers; and (vi) the need to improve methods used for risk assessment at both macro and project levels. Key recommendations of the expert

group covered the following two areas. First, there was a need to enhance mechanisms for private-public collaboration and partnership on the above issues through enhancing existing expert groups and creating new ones, through further developing tools to strengthen government-investor dialogue and through mechanisms to improve the quality and credibility of information. Second, efforts should be made to improve the quality and synergy of existing open web-based information portals as cost-effective vehicles to disseminate information through strengthening linkages with key information providers and using technology to its maximum potential.

4. Mr. Armstrong Takang, Chief Executive Officer, Alteq (ICT) Ltd. (Nigeria), spoke about industry best practices for providing information to investors. He described the challenges in gathering, processing and disseminating information in developing countries such as Nigeria. Mr. Takang pointed to the need for investment in capacity-building in information infrastructure, including training that would provide guidance on the gathering, analysis and dissemination of high-quality information. In that sense, best practices would include strengthening the provision of sector-based information, documenting and providing easy access to investment-related legislation and policies and making investment-related local laws and policies publicly available and measurable. In addition, the provision of portal-based information and on-line analytical capabilities was an important tool. Mr. Takang also strongly emphasized the limitations of the traditional information models employed by foreign investors in developing countries such as Nigeria. Those models typically failed to reflect the social, cultural and political peculiarities of a developing country and efforts must be made by investors to incorporate those factors in their decision-making. Thus, more research and development should be devoted to understanding the impact of social and cultural variables on investment, and traditional information indicators needed to be "indigenized". In addition, Mr. Takang stressed the need for both governmental and non-governmental providers of information to co-exist, thereby enabling investors to have a full and balanced view of developments in a given country.

5. Ms. Maggie Kigozi, Executive Director, Uganda Investment Authority, described efforts made to strengthen the provision of information for investors in Uganda. The Uganda Investment Authority maintained an interactive, frequently updated web site, providing crucial information for investors, such as information on geographical distribution of land. She emphasized the importance of having a dialogue between the public and private sectors, for example, through the United Nations Conference on Trade and Development/International Chamber of Commerce Investment Advisory Council, the Africa Business Round Table of the Organization for Economic Cooperation and Development, the SMART Partnership dialogue, the Africa-Asia Business Forum, the New Partnership for Africa's Development (NEPAD) and, specifically for Uganda, the Uganda Investor Round Table. Ms. Kigozi referred to the successes achieved in East Africa in attracting greater amounts of foreign direct investment, through reforms that strengthened the enabling environment for both foreign and domestic enterprises. She also emphasized the importance of developing Internet-based country investor networks that would facilitate direct and frequent communication between Governments and investors.

6. Ms. Jolanta Wysocka, Portfolio Strategist, Frank Russel Company (United States of America), stressed the importance of information in facilitating the

development of local capital markets in developing countries. Local capital markets were important in attracting and channelling both local and foreign investment. However, the functioning and development of those markets would be aided by having timely, credible and transparent information for investors. In addition to institutions such as rating agencies, initiatives like the Global Information Clearinghouse could also play an important role in providing investors with the necessary information. Ms. Wysocka urged Member States of the United Nations to support that initiative.

7. Mr. Nicolas Gadano, Senior Economist, Repsol YPF (Argentina), spoke about the 2001 financial crisis in his country and the importance in that context of strengthening the provision of information for investors. He considered that it had been more the lack of independent assessment of the country's macroeconomic situation, than the lack of transparency per se which had aggravated the country's economic problems. In particular, the International Monetary Fund (IMF) might have had conflicting roles in that it had been a large creditor at the same time as having the key task of assessing the macroeconomic stability of the country. As a result, Mr. Gadano suggested, IMF might continue to be constrained in its freedom and independence to highlight fully the macroeconomic risks faced by other countries. He recommended that an alternative international organization, not involved in lending to countries, should be handed the key surveillance responsibility for assessing and highlighting macroeconomic risks.

Discussion

8. The limitations of traditional information models brought out during Mr. Takang's presentation were reinforced during the discussion. In particular, a business representative pointed out the need to have information on various intangibles, which were nevertheless crucial for investors, such as who in a given country would have the right to sign contracts and in what field. Those factors assumed significant importance when disputes arose and terms and conditions in a contract were reneged upon. While the efficacy of the legal system in resolving disputes was critical, it would help investors to have information beforehand on political, legal and cultural dynamics that might determine the efficacy of their investment.

9. It was pointed out that in many instances it was helpful for global information to be compiled in a form that was sector-specific rather than country-specific. Investors tended to look for opportunities to invest in specific sectors rather than specific countries and compilation of facts and figures in a sectoral form would therefore enable them to detect a lucrative investment opportunity with greater ease. At the same time, such sectoral information would also draw attention to projects in countries that might not have been on the top of investors' lists.

10. A participant posed a question as to whether complete information transparency was desirable, given the assumption that it was often lack of transparency that enabled companies which had private information sources or were better skilled in interpreting information to maintain a competitive edge. The response from business representatives was that, while complete information transparency was never possible in a competitive capitalistic environment, there should be basic transparency about "the rules of the game". Yet, the real world was very far from satisfying that basic need, which would in fact facilitate efficient

competition among companies and, at the same time, would enable developing countries with sound fundamentals to better mobilize and attract capital.

11. The issue of language barriers impeding investment was raised. It was pointed out that foreign investors were more comfortable operating in countries where there were fewer language barriers and that host countries needed to provide multilingual sources of information.

Panel 2
Mitigating risks facing private investors in developing countries

Presentations

12. The Moderator of the panel, Mr. Dan Bond, First Vice-President, AMBAC Assurance Group (United States of America), opened the session by summarizing the findings of the second part of the expert workshop, on the issue of mitigating risks facing investors in developing countries. In most developing countries, there was a critical need to attract both domestic and foreign private capital to finance infrastructure projects (not least because of budgetary constraints faced by their Governments). However, there had been a sharp decline in private funding going into critical sectors such as water and power. In order to increase private financing of infrastructure projects in developing countries, fundamental reforms were needed to overcome the barriers to investment. Those barriers included non-transparent and unstable regulatory systems, macroeconomic instability, foreign exchange restrictions, weak legal and judicial systems, and failure by Governments to honour contractual commitments. At the same time, various financial structures had been developed or proposed to "mitigate" the political and sovereign risks faced by private investors. Those structures were, in turn, dependent on an explicit sharing of risks between the public and private sectors. Mr. Bond outlined a number of promising approaches to risk sharing, including project pooling, global development funds, liquidity facilities to overcome temporary shocks to project finances such as a massive devaluation, local currency guarantees, concessionary finance to subsidize targeted users, international arbitration to ensure government contracts and concession agreements, etc. In order for those techniques to find wider application, an increased dialogue between the public and private sectors was needed. Mr. Bond recalled that the Experts Group on Developing Country Infrastructure Finance (www.InfraDev.org) had been initiated at the Monterrey Conference in order to facilitate such dialogue. He invited experts from the private and public sectors to join that group and help develop further risk-sharing mechanisms.

13. Mr. John Salinger, President, AIG Global Trade and Political Risk Company (United States of America), argued that globalization had been severely undermined by losses incurred by investors, especially those in infrastructure projects in developing countries (even in large and relatively sophisticated ones). There was a lack of respect for legal agreements in developing countries and the expected rate of return on projects was not sufficient to compensate for the real risks involved. For that reason, developing countries would find it difficult to attract foreign private finance for infrastructure projects unless fundamental reforms were passed along the lines suggested by Mr. Bond. One particular point stressed by Mr. Salinger was the "denial of justice" experienced by foreign investors when local authorities had reneged on contracts. He felt the effective use of international arbitration and

dispute resolution procedures would be helpful in that respect. Mr. Salinger also emphasized the need to compare projects that failed with those that were successful and objectively assess and promote best practices.

14. Mr. Pradeep Singh, Chief Executive, Infrastructure Leasing and Finance Services (India), referred to a paradox where a shortfall of finance for infrastructure projects in developing countries co-existed with large amounts of capital searching for investment opportunities around the world. The reason for that paradox lay in the shortage of well-designed projects with investment potential in developing countries. Investor guarantees did not address that problem since they were exercises in risk allocation rather than in risk mitigation. Instead, there was a need to examine ways of improving project fundamentals as well as of reforming aspects of the policy and legislative environment that generated risks for investors. There was also a need to create project development capacities within Governments in developing countries that would provide for credible risk identification, risk mitigation and allocation structures for projects and for addressing the information requirements to minimize uncertainties in the perceptions of the private sector and the lending institutions. To that end, there could be established a permanent professional body in individual developing countries that would provide continuous and competent guidance to public-private partnerships and to the stakeholders in the public and private sectors. Multilateral organizations like the United Nations, and other donors, could assist in creating institutional arrangements and a regulatory environment that would facilitate the work of such a body (e.g., through establishing and updating guidelines for public-private partnerships, assisting in the creation of a legislative framework to guide political and bureaucratic decision-making related to public-private partnerships and supporting staff training to build up technical skills). Mr. Singh argued that the returns from such an effort would be significant, while the resources needed would be relatively small.

15. Mr. Jacques Labre, Senior Water Adviser, Suez Environment (France), spoke on the issue of improving the predictability of revenue for water and sanitation service providers in developing countries. While private investors required an adequate return, there was often a lack of connection between the tariffs set by public authorities and the costs incurred by operators — both public and private — owing to the social and political sensitivities of raising water tariffs. Hence, the average cost recovery ratio for water services had been estimated by the World Bank at only 40 per cent. Nevertheless, Mr. Labre argued, sustainable cost recovery would be achievable in most large cities over the medium term if there were a well-designed but socially equitable policy of progressive tariff adjustments accompanied by risk mitigation instruments. Looking back over the previous 10 years, he said that public-private partnerships in that area had worked in those instances where the contracts had been well designed, where there had been no exposure to foreign exchange risk and where the investment had been funded on the basis of cash flow from water revenues rather than on debt. Where problems occurred, that was often due to a refusal by public authorities to apply tariff adjustment clauses in the event of a macroeconomic shock or political instability, asymmetries in the protection of parties against breach of contract (i.e., the private sector was not adequately protected in comparison with the public sector) and water company revenues being affected by non-payment by public sector users. Mr. Labre proposed the establishment of a tariff risk mitigation instrument, whereby the public authority would guarantee the operator against unilateral decisions on tariffs, but would have

access to an appropriate counter-guarantee backed by a multilateral agency. The cost of such a counter-guarantee should be minimized through donors' support.

16. Flavio Diaz Miron, Director, Legal Affairs and Government Relations, Ford Motor Company (Mexico), while accepting the paramount importance of an enabling investment climate, argued that the intense competition for global capital would sometimes require countries to provide direct incentives to attract companies. Many developed countries provided valuable incentives, including cash grants, to attract investment (sometimes even in the face of World Trade Organization (WTO) restrictions). Many developing countries did not have the resources and adequate legal structure to grant such incentives and honour them through the life of the investment cycle. However, a number of developing countries were building up huge amounts of foreign reserves and could use them to provide incentives to attract investment. Such incentives should be used very selectively, however, and only for those projects in strategic sectors that would have significant direct and spill-over effects on the host economy.

Discussion

17. The Under-Secretary-General for Economic and Social Affairs, Mr. José Antonio Ocampo, while accepting the importance of guarantee schemes and incentives for capital flows, especially in the least developed countries, pointed out that the most severe difficulties occurred during times of crisis when Governments were least able to fulfil guarantees or implement other remedies since they did not have the resources to do so. Further discussions would be essential to identify appropriate ways and means to address that problem. Another important issue concerned the sharing of risks. While agreeing that projects should be unbundled and there should be a reasonable sharing of risks, Mr. Ocampo said that normal market risks should not be assumed by Governments. In particular, he emphasized that such risks as the exchange rate risk or the interest rate risk should be considered as normal market risks and should not therefore be covered by Governments but rather should fall under the responsibility of the private sector. Mr. Ocampo acknowledged the problems posed by the exchange rate risk for non-tradable services producers in developing countries who borrowed in foreign currency from abroad. However, he did not accept the point that Governments should compensate them for that risk and suggested that there should be better ways to deal with that problem, including greater financing in domestic currency.

18. A representative of the business sector said that the division of risks between the public and private sectors should be fairly balanced. Risks transferred to the operator would ultimately mean additional costs were passed to the final user through the tariff. Traditionally, infrastructure services like water were highly subsidized in developing countries. Phasing out subsidies and transferring at the same moment to a private operator risks that are beyond the operator's control (like foreign exchange or regulatory risks) would cause steep tariff increases that would not be socially acceptable. Keeping the cost of sovereign risks on the government side should be part of a policy of managing a smooth transition on tariffs.

19. A participant pointed out that, despite losses incurred by investors in infrastructure projects, large companies continued to invest heavily in selected developing countries, which suggested that globalization continued to present considerable opportunities for the private sector. While acknowledging the fact that

some public authorities had reneged on their contractual obligations, he argued that some foreign companies had also failed to respect their obligations and to deliver, thus making Governments wary of allowing certain projects. A representative of the business sector accepted the point that investors sometimes failed to fulfil their responsibility and suggested that a combination of due diligence by investors and Governments and a fair and enforceable dispute resolution mechanism would help.

Conclusions

20. **A number of important points were raised during the presentations and discussions between representatives of the business sector and other stakeholders present. They include the following assertions:**

(a) **There is a need to enhance private-public sector collaboration to improve information for investors in developing countries, particularly in the following areas:**

- **Enhancing the use of technology and the Internet to strengthen public-private dialogue and disseminate information. For example, Internet based country-investor networks would facilitate direct and frequent communication between Governments and investors. In addition, efforts should be made to improve the quality and synergy of existing open web-based information portals as cost-effective vehicles to disseminate information through strengthening linkages with key information providers and using technology to its maximum potential.**

- **Investment in capacity-building in information infrastructure in developing countries, including strengthening the provision of sector-based information and training that would provide guidance on the gathering, analysis and dissemination of high-quality information. This would also involve the promotion of best practices, including documentation and provision of easy access to investment-related legislation and policies and making investment-related local laws and policies publicly available and measurable.**

(b) **It is important to ensure that both governmental and non-governmental providers of information coexist, thereby enabling investors to have a full and balanced view of developments in a developing country.**

(c) **IMF may be constrained in its freedom and independence to highlight fully the macroeconomic risks faced by countries. An alternative international organization, not involved in lending to countries, should be handed the key surveillance responsibility for assessing and highlighting macroeconomic risks.**

(d) **There are a number of promising approaches to risk sharing (including project pooling, global development funds, use of liquidity facilities to overcome temporary shocks to project finances such as a massive devaluation, local currency guarantees, concessionary finance to subsidize targeted users, international arbitration to ensure government contracts and concession agreements, etc.). In order for these techniques to find wider application, there needs to be increased dialogue between the public and private sectors. The Experts Group on Developing Country Infrastructure Finance was initiated at the Monterrey International Conference on Financing**

for Development in order to facilitate this dialogue. Interested experts from the private and public sectors should join this group and contribute to the development of appropriate risk-sharing mechanisms.

(e) It is important to create project development capacities within Governments in developing countries that would provide for credible risk identification, risk mitigation and allocation structures for projects and would address the information requirements to minimize uncertainties in the perception of the private sector and the lending institutions. This can be achieved through establishing a permanent professional body in individual developing countries that would provide continuous and competent guidance to public-private partnerships and to stakeholders in the public and private sectors. Multilateral organizations like the United Nations, and other donors, can assist in creating institutional arrangements and a regulatory environment that would facilitate the work of this body (for example, through establishing and updating guidelines for public-private partnerships, assisting in the creation of a legislative framework to guide political and bureaucratic decision-making related to public-private partnerships and imparting necessary training and technical skills).

(f) Sustainable cost recovery is achievable in water services in most large cities over the long term if there is a well-designed and socially equitable policy of progressive tariff adjustments accompanied by risk mitigation instruments. There should be a transition towards a greater degree of economic self-sustainability, but at the same time vulnerable sections of society should be protected by Governments through targeted subsidies. A tariff risk mitigation instrument should be considered whereby the public authority would guarantee the water operator against unilateral decisions on tariffs, but would have access to an appropriate counter-guarantee backed by a multilateral agency. The cost of this counter-guarantee should be minimized through donors' support.

(g) The large amounts of foreign reserves being accumulated by central banks in some developing countries could be used to provide incentives to attract foreign investment. However, given the resource constraints in the developing world, they should be used very selectively and only for those projects in strategic sectors that would have significant direct and spill-over effects on the host country economy.

(h) There needs to be greater consideration of how to tackle the difficulties experienced by developing countries regarding key infrastructure projects during times of economic crisis, when Governments are least able to provide risk insurance since their budgets have been severely hit by economic problems.